

## Message Text

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44

ACTION EA-14

INFO OCT-01 ISO-00 AID-20 CIAE-00 COME-00 EB-11 FRB-03

INR-11 NSAE-00 RSC-01 XMB-07 OPIC-12 SP-03 CIEP-03

LAB-06 SIL-01 OMB-01 PM-07 H-03 L-03 NSC-07 PA-04

PRS-01 SS-20 USIA-15 FS-01 ABF-01 OPR-02 A-01 DRC-01

/160 W

----- 126176

R 200844Z AUG 74

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 6162

INFO CINCPAC

CINCPACREPPHIL

DOD

TREASURY

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E.O. 11652: NA

TAGS: FN, RP

SUBJECT: REGULATION OF MILITARY BANKING FACILITIES

1. EMBASSY HAS LEARNED THROUGH CINCPAC THAT TREASURY HAS WRITTEN TO HEADQUARTERS OF U.S. FINANCIAL INSTITUTIONS OPERATING MILITARY BANKING FACILITIES IN THE PHILIPPINES TO DIRECT THAT THESE FACILITIES ADOPT A NEW FORMULA FOR DETERMINING EXCHANGE RATES FOR PESO SALES. LETTERS WERE CLEARED BY DEFENSE BUT SHOW NO OTHER WASHINGTON CLEARANCE. NO ELEMENT OF U.S. COUNTRY TEAM IN PHILIPPINES, APPEARS TO HAVE BEEN CONSULTED IN ADVANCE ABOUT THE LETTERS.

2. PROPOSED FORMULA DIRECTS U.S. MILITARY BANKING FACILITIES IN THE PHILIPPINES TO SELL PESOS TO INDIVIDUALS AT THREE-FOURTHS OF ONE PERCENT ABOVE THE BANK'S PESO ACQUISITION RATE AND TO MAKE BULK SALES OF PESOS TO AUTHORIZED

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CUSTOMERS, SUCH AS NONAPPROPRIATED FUND ACTIVITIES,

AT TWO-TENTHS OF ONE PERCENT ABOVE THE ACQUISITION RATE. FORMULA FAILS TO TAKE INTO ACCOUNT THREE ASPECTS OF ENVIRONMENT IN WHICH U.S. MILITARY BANKING FACILITIES ARE OPERATED: FIRST, THESE FACILITIES PURCHASE PESOS FROM COMMERCIAL BANKS AT RATES WHICH VARY FROM TRANSACTION TO TRANSACTION. IN THESE CIRCUMSTANCES STRICT LINKAGE BY BANKING FACILITIES OF SELLING RATES TO ACQUISITION RATES WOULD BE ADMINISTRATIVELY UNWIELDY AND WOULD DEFEAT EFFORTS TO MAINTAIN UNIFORMITY IN RATES AT MILITARY BANKING FACILITIES IN THE PHILIPPINES. NEXT, DIRECTED MARGIN FOR INDIVIDUAL SALES WOULD BE SLIGHTLY LESS FAVORABLE TO INDIVIDUALS THAN RATES BEING PROVIDED UNDER PRIOR INSTRUCTIONS BY PHILIPPINE COMMERCIAL BANKS OPERATING AT BASES. THIRD, THE DIRECTED TWO-TENTHS OF ONE PERCENT MARGIN ABOVE ACQUISITION COST FOR BULK SALES OF PESOS WILL NORMALLY FALL SIGNIFICANTLY BELOW THE MINIMUM RATE FOR PESO SALES AUTHORIZED BY PHILIPPINE MONETARY AUTHORITIES. PHILIPPINE COMMERCIAL BANKS ARE REQUIRED TO APPLY TO PESO SALES AN EXCHANGE RATE AT LEAST ONE-HALF OF ONE PERCENT ABOVE THE GUIDING RATE FOR INTERBANK SALES. THE GUIDING RATE IS OBTAINED BY COMPUTING THE WEIGHTED AVERAGE RATE FOR INTERBANK SALES ON THE PREVIOUS BANKING DAY.

3. EMBASSY HAS RECOMMENDED FOLLOWING STEPS TO ADAPT EXCHANGE RATE DIRECTIVES TO PHILIPPINE ENVIRONMENT. THESE STEPS ACCEPTED BY CINCPACREPPHIL. FIRST, INTERBANK GUIDING RATE SHOULD BE SUBSTITUTED FOR ACQUISITION RATE AS BASE COMPONENT IN FORMULA. THIS WILL RESULT IN SELLING RATES (A) UNIFORM BETWEEN U.S. MILITARY BANKS OPERATING IN PHILIPPINES, (B) MORE STABLE THAN ALTERNATIVES BASED ON ACQUISITION RATES AND (C) OF SUBSTANTIALLY IDENTICAL IMPACT ON BANKS AS ALTERNATIVE RATES. NEXT, PHILIPPINE COMMERCIAL BANKS ON BASES SHOULD BE ASKED TO ADOPT THE SAME EXCHANGE RATE FOR INDIVIDUAL SALES AS THAT USED BY THE U.S. BANKING FACILITIES AT THE BASES. LAST, THE EXCHANGE RATE FOR BULK SALES TO AUTHORIZED CUSTOMERS SHOULD BE RAISED TO ONE-HALF OF ONE PERCENT ABOVE THE INTERBANK GUIDING RATE. THIS RATE WILL BE AS CLOSE TO THE RATE CALLED FOR IN THE TREASURY LETTERS AS IS POSSIBLE WITHOUT INITIATING AT U.S. BANKING FACILITIES IN THE PHILIPPINES LIMITED OFFICIAL USE

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EXCHANGE RATES INCONSISTENT WITH THOSE AUTHORIZED BY PHILIPPINE MONETARY AUTHORITIES. STEPS, THEREFORE, ARE IN PROCESS IMPLEMENTATION ON PREMISE THAT THEY FULLY IN LINE WITH NEEDS OF SITUATION AS SUGGESTED BY TREASURY.

4. BECAUSE MANY ASPECTS OF THE OPERATIONS OF U.S. MILITARY BANKING FACILITIES IN THE PHILIPPINES ARE OF SIGNIFICANCE TO RELATIONS BETWEEN THE U.S. AND

THE PHILIPPINES, THE EMBASSY REQUESTS PRIOR CONSULTATION  
BY WASHINGTON AGENCIES IN RESPECT TO ANY PROPOSED FUTURE  
CHANGES IN THE REGULATORY FRAMEWORK FOR THESE FACILITIES.  
SULLIVAN

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** DOLLAR, INSTRUCTIONS, FOREIGN POLICY POSITION, PESO, BANKS, MILITARY BASES  
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**Copy:** SINGLE  
**Draft Date:** 20 AUG 1974  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** boyleja  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
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**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** D740229-0059  
**From:** MANILA  
**Handling Restrictions:** n/a  
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**Line Count:** 119  
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**Office:** ACTION EA  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 3  
**Previous Channel Indicators:** n/a  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** boyleja  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 08 AUG 2002  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <08-Aug-2002 by worrelsw>; APPROVED <03 MAR 2003 by boyleja>  
**Review Markings:**

Declassified/Released  
US Department of State  
EO Systematic Review  
30 JUN 2005

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** REGULATION OF MILITARY BANKING FACILITIES  
**TAGS:** EFIN, MPOL, RP, US, TRSY  
**To:** STATE  
**Type:** TE  
**Markings:** Declassified/Released US Department of State EO Systematic Review 30 JUN 2005